The Entrepreneurial Outlaw

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The entrepreneur is often put in a position by government intervention that makes his goal to satisfy consumer demands illegal. Thus, he must act as an outlaw and perform his functions within the underground economy. Further, the entrepreneur may even be perceived as an outlaw simply by the way he meets demands in an "unfair" way. However, he is simply doing what he must to maximize his profits, which in the end benefits everyone. It is actually important to permit freedom within the economy so that progress can be made. It is a superior circumstance. However, often economic freedom is restricted by government intervention and leads to entrepreneurial activity taking on an illegal approach through the sidestepping of government regulation within an underground economy.

Economic Freedom for the Entrepreneur

Economic freedom is a free market concept and it is only within the free market that it is able to exist. The extent of man's freedom is dependant on his ability to conduct his own life according to his own ends and, "In the market economy the individual alone is the supreme arbiter in matters of his satisfaction" (Mises 1949, pp.284-285). Thus, it is within the free market that man is allowed to engage in whatever activities he sees as the best method toward the satisfaction of his wants. He is free to exchange with whoever he chooses, free to exchange at whatever rate he and another decide upon, and he is even free to abstain from exchange all together. Evidently, freedom exists with a level of social cooperation, or mutual dependence, within the scope of the private ownership of goods, or in other words, freedom is a condition of a contractual society (Mises 1949, p.280). Therefore, within the free market, consumers are enabled to pursue their highest valued ends through a least cost of means, which is allowed by the exchange process. Mises believed that it is only within the market economy that "the best possible and cheapest provisioning of consumers" could occur (Mises 1990, p.39). This is because of the theory of consumer sovereignty, which he holds to.

Within the free market, production is directed toward the goods that are most highly desired by consumers. This is because consumers are the captains of production (Mises 1949, p.270). Entrepreneurs, if they seek to obtain profits, have no choice but to produce what consumers want. Desirable goods will prove to be profitable production ventures, while undesired goods will be unprofitable. Thus, profits are given to those who succeed to satisfy wants, and losses are given to those who fail to satisfy wants. Therefore, consumers control production through the use of their wealth, by purchasing or not purchasing certain goods.

The free market, and its implication of economic freedom, is best suited to allow consumers to exercise their sovereignty. This is because it better permits entrepreneurs to partake in accurate economic calculation. Entrepreneurs need to be able to compare revenues and costs in order to see which lines of production will and will not be profitable. Without economic calculation entrepreneurs will be less suited to predict what it is that consumers want. If entrepreneurs do not know what consumers want, then they will not be able to better the lives of consumers through the production of more and better goods at lower prices. Therefore, it follows that only with economic freedom are more and better goods produced, which result in an increase in the standards of living of the masses (Mises 1990, p.1). The increase of standards of living is a direct result of the entrepreneur's goal, to earn profits amidst uncertainty, and this goal should not be hindered.

Intervention

When the free market is obstructed by intervention, thus no longer being free, it results in a constraint on economic freedom. Through controlling, or restricting the use of, the factors of production the government exercises a control over the lives of each individual in society (Mises 1990, p.8). It is not merely restricting economic freedom through its regulations, but limits all freedom.

> The freedom that the market economy grants the individual is not merely "economic" as distinguished from some other kind of freedom. It implies the freedom to determine also all those issues which are considered as moral, spiritual, and intellectual. (Mises 1990, p.8)

The broad effect of intervention is due to the fact that restricting economic activity ultimately influences all human activity, which is clear from the fact that economics is concerned with praxeology, the study of human action. Therefore, by limiting entrepreneurs and consumers in their choices and ability to exchange, the government is also limiting their ability to apply human intellect toward the satisfaction of wants. Further, it limits the progress of society and the potential standards of living that it could be achieving.

These societal standards of living are limited because the entrepreneur's ability to act efficiently toward profit maximization is obstructed. Through controlling or restricting the use of the factors of production the government eliminates or frustrates the entrepreneur's use of economic calculation. He is limited in his ability to properly assess prospected revenues and costs. Additional costs are often added to entrepreneurial ventures as a result of intervention i.e., taxes, licensing fees, and fines. Therefore, profits cannot be maximized as they would be in the free market, which would have a negative effect on economic progress as less and inferior goods are being made.

Intervention spurs from the government's false belief that it holds a superior knowledge of all stipulations within the market and the desires of individuals. It also proposes that all business activity executed within capitalism is an immoral process. The government seems to hold a belief that what is needed to bring prosperity to all people is a strict regulation of corporations (Mises 1990, p.5). However, the government is neither all knowing nor free from the possibility of making mistakes (Mises 1990, p.49). Nonetheless, there is a lack of confidence in the market process and there exists a false confidence in the abilities of government intervention.

Binding up the "Bad" Businessmen

One reason intervention ensues is because the actions of businessmen may be perceived as "immoral" or "evil." For instance, an employer may be seen as a merciless master who exploits the masses (Mises 1949, p.282). He may appear to lack mercy either because he is paying a wage that is too "low" or because he is providing work conditions that are "sub-par." The wage rate may be considered too low because it is not high enough to support as high of a standard of living as many might like. Therefore, the government intervenes to change this immoral wage rate to a higher, moral one through the enactment of a price floor, also known as a minimum wage in this circumstance.

However, the result of the minimum wage, if it is an effective one, only leads to further accusations of immorality amongst entrepreneurs because of how they react to it.

Once a minimum wage is put into place there is ultimately only one result, the decrease in employment through various firings of workers. There are two alternatives that can lead up to this conclusion.

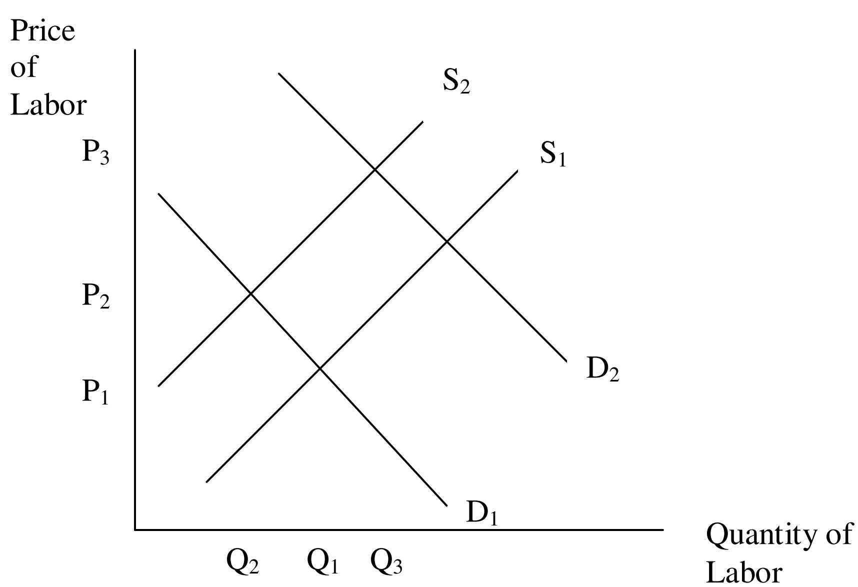
> Either prices are raised concomitantly, so both demands and sales drop, production must be curtailed and a part of the previously employed workers must be discharged. Or prices may remain unchanged, although the cost of production is increased, so that firms that are producing under the least favorable conditions and, therefore, with the highest costs will suffer losses and be forced to go out of business or at least to restrict the quantity of their production. (Mises 1990, p. 67)

Thus, the only option for entrepreneurs in the midst of a minimum wage is to fire some of its workers. However, this puts employers, yet again, in the appearance of being "evil."

Often people will say, "Just think of the single mothers. How can anyone with morals fire someone who is in such need for a job?" However, it is in the business's interest to earn profits, and at a higher wage rate it will not be able earn profits unless it cuts costs through decreasing its labor expenses. This will inevitably lead to some workers being fired who are extremely dependent on their job. Even though it might not seem to be the best option, society is better off with businesses making these firings because it is certainly not better off having good businesses going bankrupt.

It is evident that people fail to realize that entrepreneurs are not sovereign, and that they do not have the power to determine wages at their own pleasure (Mises 1990, p. 69). Entrepreneurs always work within the capacity of profit earning, and they use economic calculation to inform the decisions they make. In deciding wage rates they consider the marginal productivity of each worker (Mises 1990, pp.70). Thus, the amount entrepreneurs will allocate toward labor is dependent on how productive the labor force is. When a minimum wage is enforced, the productivity of labor does not change, intervention can not change this. It is only through capital accumulation, as resulting from increased investment in capital, that wages will increase, because increases in capital will lead to increases in productivity (Mises 1990, pp.70-71). For example, a man building a house without power tools will take much longer to finish it than a man who builds a house with power tools. Hence, the man without power tools is not using as great of a level of capital and consequently is not as productive per unit of time. Therefore, a wage may be low directly because of the low productivity of a certain kind of worker who lacks capital.

Another influence on wage rates is related to the demand and competition for workers. If there is a lower supply of workers, then the wage rate will be higher. If there is a higher supply of workers, then the wage rate will be lower. Also, a higher demand for workers leads to a higher wage rate, while a lower demand for workers causes there to be a lower wage rate



An example of a type of labor that is in low supply is a football player. There are very few who are skilled enough to become professional football players, therefore, they receive a very high wage. Also, players that are viewed as being especially good will be more highly demanded and therefore receive even higher wages. Thus, it is evident that wages are a result of the interplay between supply and demand. Further, if there is a high level of competition, a wider variety of companies demanding a certain type of labor, then wages will tend to be higher in order to retain workers. If a worker feels like he is underpaid, then he can leave his current company and work for a competitor. Therefore, it is in the entrepreneur's own interest to provide a high enough wage that will allow him to maintain a sufficient work force.

Entrepreneurs can also appear to be evil when dealing with price ceilings i.e., rent control. This is a price maximum and sellers are not allowed to accept a price higher than what the government declares (Ekelund 1995, p. 63). In such cases it becomes unprofitable to operate business under previous cost levels because an effective price ceiling will cause a decrease in revenues. Therefore, entrepreneurs respond by decreasing the costs of maintaining rented properties, which leads do decreases in quality. They can get away with this because of the great excess of demand that a price ceiling causes. When people see the decreasing levels of quality they blame the entrepreneur for being evil, however, the decreases in quality are only a logical response to government intervention. Further, the extent to which rented properties will be permitted, by the entrepreneur, to deteriorate is directly related to how extreme the price ceiling is (Ekelund 1995, p. 179).

So it is clear that the government often seeks to intervene with business activities because it views them as immoral, evil, or simply unfair. As a result of their intervention companies are then forced to react, often in a way that fails to accomplish the government's interventionist goal, which only causes a persistence of perceived immorality amongst businesses. However, entrepreneurs are not intending to be deviant, but are simply reacting to the conditions of the market which result from the interplay between supply and demand. Therefore, it appears to be the case that the government is merely seeking to abolish an immorality that does not exist.

The Truth of the Matter

The government initiates interventionist policies as a means to improve society; however, it will always fail to be successful. Intervention can not improve society or even provide freedom because it acts as a coercive force and can only work within the scope of discriminate compulsion (Mises 1990, p.13). Therefore, whoever wishes to have freedom of the mind must despise government interference (Mises 1990, p.10). It is in direct opposition to freedom and results in the restriction of human action. It actually creates its own undesirable distortions as it tends to interfere harmfully with the entrepreneurial process, which the market depends upon (Kirzner 1985, pp. 120-121). The government can not do anything to improve society; the steps it takes only lead to more steps because each intervention merely creates new problems. Therefore it follows that regulation will eventually lead to socialism, which is a complete abolishment of the market economy, the entrepreneur, and freedom. Thus, it would be more accurate to deem intervention as an immoral action, rather than entrepreneurship, due to the falsities it causes within the market and its eventual eradication of it. Intervention removes freedom and leaves individuals the mere right to obey the commands of the government (Mises 1949 p.284). However, there are many entrepreneurs who decide to go around the commands that the government sets in place, becoming "outlaws". Such behavior may be deemed corrupt; however, their corrupt activities are actually beneficial to society.

Corruption

Corruption is essentially an individual's attempt, or action, to evade government regulations in order to attain a benefit (Osterfeld 1992, p.205). Therefore, people pursue corrupt actions because they foresee that such a pursuit will be beneficial. However, even if an individual acts corruptly for his own benefit, his corrupt actions may actually have an overarching benefit for society as a whole. The corruption may be beneficial because it only seeks to get around a regulation that restricts the free market, and the enactment of the corruption may result in a positive assistance toward the growth of the economy (Osterfeld 1992, p.204). When a corrupt activity is viewed as beneficial to society it is called expansive corruption.

> [I]t expands opportunities for socially beneficial exchange. It entails increased competition and market flexibility. The result is that the quantity of goods produced expands and their quality improves. It is, in short, characterized by productive investment, that is, the expansion of the overall wealth of the society. (Osterfeld 1992, p.209)

Theses types of corruptions are often pursued by entrepreneurs because they become necessary in order for them to maximize profits.

Tax Evasion

Tax evasion is a prime example of expansive corruption. It is probably the most common occurrence of corruption and is certainly a primary activity within the underground economy. This is because of the negative effects of taxation as a market restrictor. It limits both the outputs and incomes of businesses. Therefore, entrepreneurs may find it beneficial to evade taxes in order to maximize profits.

The negative effects of taxes are apparent with a little analysis. First of all, a tax is defined as "any payment – cash or in kind – made to some sort of governmental authority" (Ekelund 1995, p.56). When a tax is implemented it ultimately results in an increase in price and cost because the tax burden is held by both buyers and sellers (Ekelund 1995, pp. 58-59). This is because demand has remained the same; therefore, if the seller transferred the total cost over to the selling price there would end up being an excess of supply. Thus, entrepreneurs transfer only a segment of the increased costs over to buyers, while biting the bullet on the rest. Since price has increased, there is a decrease in output. This is evidenced by the law of demand which states an inverse relationship between price and quantity demanded. Clearly, it is evident that taxes result in a restriction of market activity (Ekelund 1995 p. 59).

Knowing the restrictions that taxes cause, entrepreneurs may pursue evading taxes by leaving segments of their income unreported (Tanzi 1982 p. 69). These activities have been made evident by recent corporate scandals that involved tax evasion. As a result, stricter regulations have been rushed forth i.e., the Sarbanes Oxley Act. However, new regulations have not extinguished the existence of the underground economy. Tax evasion continues to remain beneficial because it allows companies to better allocate their capital toward productive uses. Further, the higher the taxes the greater the benefits of evading taxes (Tanzi 1982, pp. 78-79).

Entrepreneurial activity within the underground economy is often promoted by taxes. This is because growing frustration may lead to individual pursuits of business activities that will better enable a person to avoid regulations. For instance, an individual may grow tired of seeing such high levels of their income being withheld so they pursue starting their own business in order to be better suited to evade taxes (Senholz 1984, p.7). An example is a plumber fixing someone's pipes on the weekend rather than doing it while on the clock. By receiving his income directly he is able to be more flexible in his income reports because he does not have his money passing through an employer. Further, he is also able to receive his cash now rather than having to pay it off instantly before even getting a chance to see it.

Obviously, by evading taxes, entrepreneurs will have a greater income at their disposal because they are cutting out one of their explicit costs. This gives them a greater ability to invest in capital that they can use in their companies' production processes. As a result, standards of living are increased by the accumulation of capital. The entrepreneur shirks taxes, a market restricting intervention, in order to benefit through the gaining of higher profits, which then also benefits their customers and shareholders. Therefore, despite it being corrupt, tax evasion can be a beneficial pursuit of entrepreneurs for the whole of society.

Beyond Tax Evasion

There are several other government initiated regulations besides taxes that contribute to the existence of an underground economy, such as price intervention. "Price controls almost invariably produce black markets" (Sowell 2004, p.32). The reason black markets are consistently formed amongst price ceilings is because of the shortages they cause. A shortage leads to people having to go without a good they demand; however, some have such a high preference for the good that they will not accept that fate (Rothbard 2004, p.893). Therefore, they pursue the good in the illegal market. For example, an episode of Full House once featured Danny Tanner, the father, trying to buy Michelle, his daughter, the newest hip board game. There was a shortage of the board game, for reasons not expressed, and Danny had a horrid time trying to get a hold of one. He waited in long lines and even fought with mothers to no prevail. He eventually resorted to buying a bootleg version of the game from a man in an alley. Here it is seen that Danny came to the resolve that if he was to get this game for Michelle, which was a very high preference for him, he would have to get it illegally. This example, though fictional, shows the truth of how black markets can be a result of shortages.

Normally when there is a shortage consumers bid up prices toward a new equilibrium; however, a price maximum will no allow this to occur. Entrepreneurs within the underground economy, on the other hand, since they are illegal anyway, will allow for prices to be bid up. The reality is that underground economies will contain especially high prices. Further, "prices are not only higher than the legally permitted prices, but also higher than they would be in a free market, since the legal risks must be compensated" (Sowell 2004, p.32). The government will enforce the price controls it put into place, and will therefore punish anyone they find evading their regulations. Due to the risk of being caught, entrepreneurs require a higher price because a higher cost is involved, i.e., fines or imprisonment. Also, "The greater the penalties laid on sellers in the black market…the *higher* the black market price" (Boulding 1947, p. 117). This follows from the fact that higher penalties result in a greater scarcity of the good in the underground economy due to a decrease in suppliers (Rothbard 2004, p.901). There are fewer who are willing to take an even greater risk. However, why are some entrepreneurs willing to take such risks in the first place?

The willingness of some entrepreneurs to risk acting within the underground economy is seen in their foresight of being able to make profits. Just as in the free market, the pursuit of profit is always done in the knowledge of risk. However, within the underground economy, risk is most heavily undertaken in the area of possible punishment by the government. The cost side of the profit equation is not merely monetary, but includes what getting caught entails. Black market entrepreneurs realize that a high risk is involved; however, they decide that the high revenue potential outweighs those risks. Revenues exceed costs; therefore, profit can be made. Surely, profit potential is a direct result of the extremely high preferences that buyers have in the midst of shortages. People are willing to pay exuberant prices which are high enough to induce entrepreneurs to pursue the illegal activity.

Although the activity is illegal, it turns out that the formation of an underground economy is the best bet for entrepreneurs meeting consumer demands amid government intervention. That is why there will be a higher prevalence of underground activity when intervention is more rampant. For instance:

> A 1946 government survey of retail outlets reported: "Approximately 85 percent of the stores had no veal, more than four-fifths were without pork loins, ham or bacon and almost seven out of ten had no beef or lamb." As in other cases, however, this was not due to an actual physical scarcity of meat but to its diversion into black markets. (Sowell 2004, p. 33)

Meat products were driven into black markets because it was impossible for demands to be met at the artificially low prices that the government had enacted. Within a black market entrepreneurs can at least make a slight movement toward equilibrium, not that it will be reached, but at least the market will be closer to it. The economy falls far short of the efficiency it would have operated with even after black markets are formed (Rothbard 2004, p.901). However, it is the only option as entrepreneurs seek to maximize profits through an accurate meeting of consumer wants.

Conclusion

It is important to have economic freedom because it best enables entrepreneurs to pursue profitable ventures, as determined by sovereign consumers, in an unobstructed environment. As entrepreneurs pursue profits they contribute to a better economic status for the whole of society because they will be providing consumers with wider assortments of goods. Further, their endeavors will lead to a capital accumulation that betters the lives of everyone by increasing standards of living. In contrast, intervention makes the entrepreneurial process difficult. It can cause inaccurate economic calculations to be made, or may even eliminate the possibility of economic calculation all together. Further, intervention can lead to entrepreneurs appearing to be evil because of how they respond to interventionism. However, they respond as they do based on their economic calculations that are geared toward profit maximization despite regulation.

Sometimes entrepreneurs will even partake in illegal activities in order to better meet demands. However, when an entrepreneur acts as an outlaw it is not necessarily an "evil" occurrence. His pursuit of illegal activity only occurs because the government has restricted the economy in such a way that consumer demands can only be met by evading laws. This may be realized by evading taxes or selling goods on the black market. These illegal activities are only done with the goal of maximizing profits. This is always the entrepreneur's main concern. As the entrepreneur pursues profits he creates wealth and improves the conditions of society through economic progress, which would not appear to be an evil endevour.

To accuse an entrepreneur of being immoral simply because he seeks to attain profits is foolish, for that is his occupational purpose. Further, immorality, or the existence of evil motives, is not an economic concept. Economics is concerned with the actions of men; not with the internal workings of their mind. So even if the market appears to be failing, simply because there is not an over abundance of goods, this does not mean that the government has a moral duty to intervene (Kirzner 1985, pp.119-120). All goods are not available to all people because of scarcity, not because of selfish business owners. It is the natural state of the universe. Therefore, whatever intervention a government instates will not solve the problem of scarcity.

The interventionist activity of the government only constrains economic freedom. It violates consumer sovereignty (Kirzner 1985, p.135). It acts as if it is a god and makes entrepreneurs out to be members of the netherworld, either by falsely targeting them as outlaws, or by actually forcing them to become outlaws. However, it is not the entrepreneur's innate desire to be corrupt, but government interventions, and its market restrictions, often force entrepreneurs to act that way. Therefore, the corrupt activities of entrepreneurs are a direct result of government intervention and if intervention never ceases to exists, then neither will the entrepreneurial outlaw. However, since the market manipulations that intervention causes may result in economic regression it might be more accurate to say that it is actually the government that is a naïve and malicious member of the netherworld. Thus, it is the outlaw!

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